



STATE OF WASHINGTON  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
DIVISION OF CONSUMER SERVICES  
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August 17, 2000

**To:** All Escrow Agents and Interested Parties

**From:** Mark Thomson, Director of Consumer Services and Administration

**Subject:** Escrow Licensees to Submit Quarterly  
Trust Account Reconciliation Reports

The Department of Financial Institutions (DFI) has administered the Escrow Agent Registration Act (Act) for approximately five years. Our experience over this period reveals that the level of theft and embezzlement from escrow agent trust accounts is a serious problem that threatens consumers and should be of concern to honest and trustworthy independent escrow agents. Over this five-year period, DFI has investigated an average of three thefts per year. This rate of loss is too high.

In response, DFI proposes to employ a risk factor approach to scheduling our audit visits to licensees. The risk factors included in this scheduling approach may include previous audit results, previous enforcement history, the experience and history of the company's Designated Escrow Officer, the volume of complaints or other tips received against the company, the volume of business performed by the company, whether the company has an internal audit function or obtains an external audit of its affairs, and whether the company employs an external accounting service. DFI also intends to audit all new licensees within six months of receiving their license.

In addition to this risk-based audit approach, DFI also intends to implement a voluntary off-site monitoring system of trust account reconciliations. Beginning October 1, 2000, the Department will request that all licensed escrow agents voluntarily submit quarterly reports to the DFI containing the following information:

- (1) Dollar volume of escrow funds **deposited** into the trust account and the number of escrow accounts opened in each month of the quarter.
- (2) Dollar volume of escrow funds and number of escrow accounts **disbursed** from the trust account in each month of the quarter.
- (3) A list of outstanding checks.

- (4) The Accounting Control Number at the beginning and end of the month.
- (5) Detailed reconciliation of the trust account(s) for the last month of the quarter, supported by a trial balance(s) and copies of documents supporting postings made to correct outstanding items on the reconciliation statement(s).
- (6) Reconciliations for the first two months of the quarter, including copies of supporting documents of outstanding items, excluding trial balance(s), and outstanding checks.
- (7) Copies of trust account bank statement(s) for the last month of the quarter.

DFI will use this information to determine the level of risk associated with the escrow agent's management of its trust account, and will adjust its audit schedule accordingly. Our hope is that this program of offsite review will provide incentive to all licensed escrow agents to keep current on their trust account reconciliations, will provide DFI with a monitoring system that will enable our auditors to identify problems and take corrective action more quickly, and prevent consumer losses due to mismanagement of trust account funds or theft.

Additional instructions and forms for the quarterly report will be mailed in September of this year. If you have questions regarding this issue, please contact me at (360) 902-8787 or by e-mail at [mthomson@dfi.wa.gov](mailto:mthomson@dfi.wa.gov)